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7 Attorneys for Debtor
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10 UNITED STATES BANKRUPTCY COURT
11 DISTRICT OF OREGON

12 In re

13 Western Communications, Inc.

14 Debtor.
15

Case No. 19-30223-tmb11

**DECLARATION OF JOHN COSTA IN
SUPPORT OF FIRST DAY MOTIONS**

16 I, John Costa, hereby declare that the following statements are true to the best
17 of my knowledge and belief, that I am competent to testify to the matters stated herein, and
18 that I understand they are made for use as evidence in court and are subject to penalty for
19 perjury.

20 1. On January 22, 2019 (the "Petition Date"), Western Communications,
21 Inc. ("Debtor") filed a voluntary petition for relief under Chapter 11 of Title 11 of the United
22 States Code.

23 2. I am the President of Debtor and have served in such capacity for
24 several years.

25 3. I submit this Declaration in support of the various motions filed by
26 Debtor with the Court on the Petition Date (the "First Day Motions") and in support of the

1 issuance and entry of orders on the First Day Motions. Except as otherwise indicated, all
2 facts set forth in this Declaration are based on my personal knowledge, my review of relevant
3 documents, or my opinion based upon my experience, knowledge, and information
4 concerning Debtor's operations and financial affairs. If called upon to testify, I would testify
5 to the facts set forth in this Declaration.

6 4. Promptly after filing its Chapter 11 petition, Debtor filed the First Day
7 Motions. Debtor requests that orders approving each of the First Day Motions be entered
8 because each constitutes a critical element in achieving a successful reorganization of Debtor
9 for the benefit of all parties in interest.

10 **BACKGROUND OF DEBTOR**

11 5. Debtor is an Oregon corporation headquartered in Bend, Oregon.

12 6. Debtor is a small market newspaper, niche publishing, printing, and
13 digital media company with five publications in Oregon two publications in California.
14 Debtor produces and publishes the Bend Bulletin, Baker City Herald, La Grande Observer,
15 Redmond Spokesman, Brookings Curry Coastal Pilot, Crescent City Daily Triplicate, and
16 Sonora Union Democrat. Debtor is committed to community journalism and believes in the
17 invaluable role and responsibility of community newspapers.

18 7. Debtor currently has 75 full time salaried employees and 170 hourly
19 employees. Debtor's average monthly payroll approximates \$800,000.

20 8. Debtor's newspapers have a total of approximately 30,000 paid
21 subscribers.

22 9. Debtor has significant real estate holdings in that it owns real estate in
23 Bend, Redmond, Brookings, La Grande, and Sonora, with an estimated fair market value in
24 excess of \$22,000,000.

25 10. Sandton Credit Solutions Master Fund III LP ("Sandton") asserts that
26 it is the assignee of a debt originally owed by Debtor to Bank of America, N.A. The debt is

1 in the approximate amount of \$18,900,000 and is secured by substantially all of Debtor's
2 accounts, inventory, equipment, intangibles, and real property.

3 11. Secured and priority tax claims are owed by Debtor to Deschutes
4 County for unpaid real and personal property taxes totaling approximately \$650,000, and to
5 the Internal Revenue Service in the approximate amount of \$1,000,000. Debtor also has
6 unsecured debts totaling \$7,000,000 or more.

7 **USE OF CASH COLLATERAL**

8 12. Debtor needs authority to use cash collateral to enable it to continue
9 the operation of its business in an orderly manner, and to preserve and maintain the going
10 concern value of its business for the benefit of all of its creditors and the estate. Debtor will
11 need authority to use cash collateral in an amount up to \$1,619,000 on an interim basis
12 through February 24, 2019 pursuant to the Cash Collateral Budget attached as Exhibit 1 to its
13 Motion for Authority to Use Cash Collateral.

14 13. Debtor's authority to use cash collateral on an interim basis is
15 necessary to avoid immediate and irreparable harm to the estate. Absent the court's approval
16 of this request, Debtor will confront a disruption of its business operations that would have a
17 material and adverse effect on Debtor's options to the detriment of Debtor, its creditors, and
18 its estate. Debtor's use of cash collateral will not harm the interests of Sandton because the
19 use of such cash will enable Debtor to operate its business in the ordinary course and
20 maintain the going concern value of its business.

21 **PREPETITION WAGES, SALARIES, AND BENEFITS**

22 14. Debtor employs 75 full time salaried employees and 170 hourly
23 employees. Salaried employees are paid on the 5th and 20th day of each month for salaries
24 earned through the end of the prior month and the 15th of the month, respectively. Salaried
25 employees were paid through January 15, 2019 prior to the Petition Date.
26

1 15. Debtor's hourly employees are paid on the 15th and last day of each
2 month through the end of the prior week. Prior to the Petition Date, hourly employees were
3 paid their wages through January 8, 2019.

4 16. Because the Petition Date is January 22, 2019, Debtor has unpaid
5 prepetition obligations for wages, salaries, expenses, and other employee compensation and
6 benefits incurred prior to the Petition Date. The total amount Debtor is obligated to pay for
7 accrued and unpaid prepetition wages, salaries, expenses, compensation, taxes, and benefits
8 is approximately \$266,000. No individual is owed more than \$12,850 for prepetition wages,
9 salaries, commissions, or other compensation, including benefits.

10 17. A failure to pay accrued wages, salaries, expenses, and benefits, or
11 even a delay in such payments, would have a significant negative impact on worker morale
12 and some employees may not report to work, thereby impairing Debtor's ability to continue
13 operations.

14 18. Debtor's employees are vital to its efforts to reorganize and provide
15 essential services, without which Debtor will be unable to function.

16 **BANK ACCOUNTS**

17 19. Debtor currently maintains 10 different bank accounts, a list of which
18 bank accounts is attached as Exhibit 1 to Debtor's Motion for Order Authorizing Use of
19 Existing Bank Accounts. All banks have been notified of the filing and have been instructed
20 that no checks outstanding as of the Petition Date be honored. Debtor has requested that the
21 accounts at Wells Fargo and JP Morgan Chase be converted to DIP accounts.

22 20. Debtor's bank accounts include accounts in Baker, Oregon and
23 La Grande, Oregon with Umpqua Bank. There is no Wells Fargo or JP Morgan Chase
24 branch within realistic driving distance. Approximately \$65,000 to \$75,000 flows through
25 the accounts each month. The Umpqua accounts role up to the primary operating account
26

1 with Wells Fargo, leaving only cash as necessary in the Umpqua accounts. The Umpqua
2 accounts never have in excess of \$250,000 on deposit.

3 21. Debtor seeks permission to use the existing bank accounts for the
4 reason that it would be difficult, time consuming, and unreasonably expensive to close the
5 prepetition accounts and open a postpetition account structure that would meet Debtor's
6 business needs and comply with cash collateral, payroll, and other operating and reporting
7 needs and requirements. Debtor's business operations are located in diverse and remote
8 geographical locations, some of which have limited banking options.

9 22. Debtor has and will continue to take all precautions necessary and
10 appropriate to prevent any unauthorized prepetition check from clearing the accounts.
11 Debtor has stopped payment on all prepetition accounts, excluding payroll, and worked
12 closely with its banks to ensure that no prepetition check will be honored postpetition except
13 for payment of any expense expressly approved by the Court.

14 23. If Debtor is required to close its current bank accounts and upset its
15 integrated banking structure, the result will be severe disruptions in Debtor's business
16 operations because of the confusion that will be created among Debtor's vendors and
17 customers, and will disrupt Debtor's ability to operate effectively and economically.

18 **PREPAID SUBSCRIPTIONS**

19 24. Debtor's newspapers have approximately 30,000 paid subscribers.
20 Most of Debtor's subscribers prepay for the future delivery of newspapers (the "Prepaid
21 Subscriptions"). Such Prepaid Subscriptions may cover periods of up to two years.

22 25. As of the Petition Date, Debtor had approximately \$1,400,000 in
23 aggregate outstanding Prepaid Subscriptions. The cost of an annual subscription to The
24 Bulletin is \$250. No prepayment exceeds \$2,850.

25 26. It is in the best interests of Debtor and its creditors and estate for
26 Debtor to continue to honor its obligations with respect to Prepaid Subscriptions. The

1 viability of Debtor depends on the continued loyalty and satisfaction of its customers. If
2 Debtor is unable to honor the Prepaid Subscriptions, many of Debtor's customers will defect
3 from Debtor and Debtor's reputation and operations will be irreparably harmed. The benefits
4 of continued customer satisfaction and loyalty during the pendency of this Case from
5 honoring the Prepaid Subscriptions will far exceed any cost of honoring the Prepaid
6 Subscriptions.

7 I declare under penalty of perjury under the laws of the United States of
8 America that the foregoing is true and correct.

9 DATED this 23rd day of January, 2019.

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11 /s/ John Costa
12 John Costa
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In addition, I served the foregoing on the parties indicated as "Non-ECF" on the attached List of Interested Parties by mailing copies thereof in sealed, first-class postage prepaid envelopes, addressed to the parties' last-known address and depositing in the U.S. mail at Portland, Oregon on the date set forth below.

TONKON TORP LLP

000646/00045/9675162v1

LIST OF INTERESTED PARTIES

In re Western Communications, Inc.
U.S. Bankruptcy Court Case No. 19-30223-tmb11

ECF PARTICIPANTS

- JONAS V ANDERSON jonas.v.anderson@usdoj.gov
- MICHAEL W FLETCHER michael.fletcher@tonkon.com, leslie.hurd@tonkon.com;spencer.fisher@tonkon.com
- ALBERT N KENNEDY al.kennedy@tonkon.com, leslie.hurd@tonkon.com;spencer.fisher@tonkon.com
- KATHYRN PERKINS kathryn.e.perkins@usdoj.gov
- BRAD T SUMMERS summerst@lanepowell.com, docketing-pdx@lanepowell.com
- US TRUSTEE, PORTLAND USTPRegion18.PL.ECF@usdoj.gov

NON-ECF PARTICIPANTS

SECURED CREDITORS

Sandton Credit Solutions
Master Fund III, LP
16 West 46th St., 11th Floor
New York, NY 10036-0000

First Interstate Bank
805 NW Bond St.
Bend, OR 97703

PROPERTY TAXES

Baker County Tax Collector
1995 3rd St., #140
Baker City, OR 97814

Curry County Tax Collector
POB 1568
Medford, OR 97501

Del Norte County Tax Collector
981 H St., #150
Crescent City, CA 95531

Deschutes County Tax Collector
POB 7559
1300 NW Wall St., #200
Bend, OR 97701

Tuolumne County Tax Collector
POB 3248
Sonora, CA 95370-3248

Union County Assessor/Tax Collector
1001 4th St., Suites A & B
La Grande, OR 97850

Yazoo County Tax Collector
POB 108
Yazoo City, MS 39194

TOP 20 CREDITORS

Advantage Newspaper Consultants
501-B Executive Place
Fayetteville, NC 28305

Andrews McMeel Universal
Andrews McMeelsynd/
Universal Uclick
POB 843345
Kansas City, MO 64184-3345

Bank of America
800 Fifth Ave.
Seattle, WA 98104

Carter & Associates
POB 21444
El Cajon, CA 92021

Century Washington Center Inc
POB 700
Bend, OR 97709

Davis Wright Tremaine LLP
1201 3rd Ave., #2200
Seattle, WA 98101-3045

Eastman Kodak Company Inc.
343 State St.
Rochester, NY 14650

Grove Mueller Swank PC
POB 2122
Salem, OR 97308-2122

Harrigan Price Fronk & Co. LLP
2796 NW Clearwater Dr.
Bend, OR 97703-7008

Homeland Fireworks Inc
POB 7
Jamieson, OR 97097

Journal Graphics Inc
2840 NW 35th Ave.
Portland, OR 97210

Karnopp Petersen LLP
1201 NW Wall St., #300
Bend, OR 97701-1957

Newscycle Solutions Inc.
POB 851306
Minneapolis, MN 55485-1306

Oregon Web Press Inc.
263 29th Ave., SW
Albany, OR 97322

Pacific Power Inc
POB 26000
Portland, OR 97256

Page Cooperative Inc.
700 American Ave., #101
King of Prussia, PA 19406

Sacramento Bee
c/o Paul J. Pascuzzi
Felderstein Fitzgerald
Willoughby & Pascuzzi LLP
400 Capitol Mall, #1750
Sacramento, CA 95814

Southern Lithoplate Inc.
POB 741887
Atlanta, GA 30374

Sun Chemical Inc
POB 2193
Carol Stream, IL 60132-2193

United Way of Deschutes County
POB 5969
Bend, OR 97708